



The impact of formal processes for market information acquisition and utilization on the performance of Chinese new ventures

Michael Song^a, C. Anthony Di Benedetto^{b,c,*}, Mark E. Parry^d

^a Institute for Entrepreneurship and Innovation, Management of Technology and Innovation, Marketing, University of Missouri-Kansas City, United States

^b Department of Marketing and Supply Chain Management, Fox School of Business, Temple University

^c Eindhoven University of Technology, The Netherlands

^d Entrepreneurial Leadership & Marketing, University of Missouri-Kansas City, United States

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ABSTRACT

The authors examine the performance impact of formal market information processes. Specifically, a theoretical model is developed that hypothesizes that formal processes for market information acquisition and utilization have direct and positive main effects on new venture success and is then tested using a sample of 222 new ventures located in China. Findings indicate that new venture success is positively correlated with the use of formal processes for market information acquisition and use. Moreover, the relative importance of formal processes to the acquisition and use of market information depends on whether the new venture serves an emerging or established market. In particular, the impact of formal processes for information acquisition is higher among new ventures that serve emerging markets. In contrast, the impact of formal processes for information use is higher among new ventures that serve established markets. We present managerial implications of our results. For example, a new venture with a strong market orientation can respond quickly to emerging marketplace needs, and can even seize the advantage from incumbents. If it is in an emerging market, however, the new venture management team should strive to excel at information acquisition; in an established market, it is important for the management team to excel at information utilization.

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1. Introduction

The marketing literature defines market orientation as the processes of information acquisition and use; a market-oriented firm obtains information from the marketplace and has processes in place by which this information is used throughout the organization. A substantial amount of literature indicates that a firm that is market oriented has a higher success rate with product innovation (Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993; Song, Xie and Di Benedetto, 2001; Langerak, 2001; Kyriakopoulos and Moorman, 2004; Narver, Slater and MacLachlan, 2004; Gotteland and Boulé, 2006).

The above literature empirically establishes the importance of a market orientation for larger firms or the strategic business units (SBUs) of larger firms. The processes of information acquisition and use by new ventures have received much less attention in the academic literature (see discussion in Ireland, Duane, Reutzell and Webb, 2005). Furthermore, although the importance of product innovation for new ventures has been well established (Eisenhardt and Schoonhoven, 1990; McCann, 1991), empirical studies of the link between product innovation and the performance of new ventures have yielded contradictory or inconclu-

sive results (Capon, Farley and Hoenig, 1990; Li and Atuahene-Gima, 2001, 2002). For this reason, Li and Atuahene-Gima (2001) have called for further studies of moderating factors to better understand the link between innovation and new venture performance.

Despite the critical importance to the new venture of product innovation, new venture management often does not adopt a market orientation. This may occur either because they lack requisite time and funding or because they are less aware of the importance of effective market information processes (Lodish, Morgan and Archambeau, 2007, p. xxiv). Venture capitalists seem to agree that marketing tasks are in general often not well undertaken by new venture managers. They rate marketing as the business function that has the largest impact on new venture success and estimate that improved marketing might reduce new venture failure rates by as much as 60% (Lodish et al., 2007, p. xxiii). Despite the perceived importance of marketing, few studies have directly examined the effects of improved marketing on new venture performance (for two such studies, see Matsuno, Mentzer and Ozsomer, 2002; Atuahene-Gima, Li and De Luca, 2006).

New ventures can possibly improve their success rates by installing formal processes for improved information acquisition and utilization. However, the literature has not yet adequately addressed the impacts of information acquisition and use by new ventures, and the exact mechanism by which these processes will actually impact new venture success remains unknown. On the one hand, some new ventures are

* Corresponding author. Alter Hall 523, 1801 Liacouras Walk, Philadelphia, PA 19122, United States. Tel.: +1 215 204 8147.

E-mail address: anthony.dibenedetto@temple.edu (C.A. Di Benedetto).

created to develop and commercialize a product into a new, emerging market, in which the dominant product form has not yet emerged (Utterback and Abernathy, 1975) and the ultimate market size is impossible to ascertain. This market condition presents challenges to the new venture, which is already constrained by its comparative lack of financial and human resources. Indeed, poor information acquisition and/or use may be fatal to the new venture. Nevertheless, market information may also be much less reliable and may possibly even be misleading if the market is characterized by too many unknowns.

On the other hand, other new ventures seek to launch a new product into a market with more established customer needs and wants, with well-known competitors and with a more stable projection of market size. While this type of venture still faces risk due to resource constraints and still may possibly not survive as a business entity if its launch is unsuccessful, the market information it gathers may be more reliable and valuable, and formal processes for market acquisition and/or utilization may thus be relatively more valuable. In summary, the effect of market condition (i.e., emerging versus established market) on the value of information for new ventures has not been empirically researched.

In this study, we focus on new ventures based in China. The importance of China in today's global economy cannot be overstated as it undergoes unprecedented economic expansion. The Chinese economy has been described as transitional and marked by dysfunctional competition and environmental turbulence (Li and Atuahene-Gima, 2001, 2002; Luo, Sivakumar and Liu, 2005; Li and Li, 2007). Each of these characteristics has the potential to increase the value of market information. In a transitional economy, firms must stay abreast of relevant changes in the legal and regulatory environment. Competitive information acquisition also assumes increased importance, as the inadequate protection of property rights can lead to competitive behavior that is opportunistic, unfair, or illegal (Li and Atuahene-Gima, 2001). In addition, existing research suggests that the greater uncertainty of Chinese markets increases R&D efforts' need for market information (Atuahene-Gima and Li, 2000).

The research objective of this study is to determine the significance of market information acquisition and use as antecedents to the success of Chinese new ventures. The market conditions peculiar to China as noted above may affect the relationships between market information acquisition, information use, and the success of Chinese new ventures. That is, it is unclear whether the benefits to the Chinese new venture of information gathering and use would outweigh the costs of designing, implementing, and maintaining the formal processes and systems that would be required. New ventures are generally resource-poor (Eisenhardt and Schoonhoven, 1990), and it is not expected that Chinese-based new ventures would be different in this regard. The costs of these processes may be viewed as prohibitively high by new venture management, whereas these processes may be viewed as a matter of good business practice by larger firms. The willingness of Chinese new ventures to invest in formal information gathering processes is not yet understood, nor is the potential benefit to the new venture of doing so.

To accomplish our objective, we build a theoretical model in which formal processes for market information acquisition and utilization are hypothesized to have direct, positive main effects on new venture success. Our model also considers the new venture's market condition, which we define here as whether the market is established with known and well-defined needs or customer needs are still emerging. The market condition is hypothesized to have moderating effects on new venture success. For example, it is not clear from the extant literature whether formal processes for market information acquisition or utilization are equally important in both market conditions.

We test hypotheses derived from the model using a data set comprising 222 Chinese new ventures. We discuss our theoretical contributions, especially the support for our hypotheses regarding the impacts of information acquisition and utilization on new venture

success in emerging or established market conditions. Our analysis allows us to make recommendations to managers of Chinese new ventures, regarding whether they should establish a formal process for market knowledge acquisition and/or utilization, and if so, under what conditions. Finally, we discuss the issue of the possible generalizability of the results to new venture managers operating in other parts of the world.

2. Literature review

Consistent with the prior studies of market orientation, we use the term *market information* to refer to "data concerned with a firm's current and potential external stakeholders" (Moorman, 1995, p. 319). Examples of market information include data that describe customers, competitors, supply chain partners, and environmental trends (Kohli and Jaworski, 1990). We use the phrase *market information processes* to refer to the activities through which new ventures acquire and utilize market information. In this section, we review existing studies of market information acquisition in large firms and discuss several implications of these studies for the use of formal information processes in new ventures.

Kohli and Jaworski (1990) define a market orientation as "the organizationwide generation, dissemination, and responsiveness to market intelligence" (p. 3). From this perspective, the activities of market-oriented firms are collective responses to shared information gathered from the market. This information can be acquired from secondary sources such as trade publications, as well as through surveys and face-to-face meetings with customers, suppliers, retailers, and distributors (Jaworski and Kohli, 1993). In a related study, Moorman (1995) outlines two kinds of responsiveness: one dimension involves the analysis and evaluation of market information, while a second involves the use of that information in marketing decisions. Her empirical work suggests that both of these sub-dimensions have a positive and significant impact on new product performance (see also discussion in Kyriakopoulos and Moorman, 2004; Gotteland and Boulé, 2006).

Over the past 19 years, a large body of research has emerged supporting the existence of significant positive relationships between firm performance and the level of the firm's market information acquisition and use (e.g., Jaworski and Kohli, 1993; Matsuno and Mentzer, 2000; Kirca, Jayachandran, and Bearden, 2005). Most of these studies have focused on the use of market information processes in large, established firms. Consequently, one important research question concerns the generalizability of the existing findings on market orientation to new ventures.

Importantly, existing studies have recognized a distinction between formal and informal market information processes but have not examined the implication of this distinction in their empirical work. For example, Kohli and Jaworski (1990) observe that market intelligence "may be generated through a variety of formal as well as informal means (e.g., informal discussions with trade partners) and may involve collecting primary data or consulting secondary sources" (p. 4). Moreover, in their empirical work (Jaworski and Kohli, 1993), some of the items used to measure information acquisition deal with informal processes (e.g., "informal meetings"), while other scale items suggest more formal processes (e.g., regularly-scheduled market research activities). Moorman (1995) also distinguishes between formal and informal processes; her scale items ask respondents to indicate the degree to which their divisions have "formal or informal processes" for collecting, disseminating, and responding to various kinds of market information.

Both the Jaworski and Kohli (1993) and the Moorman (1995) scales explicitly assume that formal and informal information processes affect performance in the same way and are therefore pure substitutes. However, there are several reasons to believe that formal processes may be more effective than informal processes. First,

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